

Required Report - public distribution

Date: 6/4/2009

GAIN Report Number: TW9031

Taiwan

GRAIN AND FEED ANNUAL

Corn, Wheat, Rice Situation & Outlook

Approved By:

Chris Frederick

Prepared By:

Chiou Mey Perng/Shane Dicks

Report Highlights:

Taiwan is a net importer of wheat and corn. A significant decrease in wheat consumption has been observed driven by high world wheat prices and the abundance domestic rice to act as a substitute for imported wheat. Taiwan's wheat import forecasts for MY08/09 and MY09/10 are one million mt representing a 180,000 mt or 14 percent decrease from last year. The U.S. wheat import share is anticipated at 85 percent.

Corn import forecasts for MY08/09 and MY09/10 are both 4.32 million metric tons, an 111,000 tons or 3 percent decrease in line with around 2 percent decrease in local livestock production target from the previous year. However U.S. import share is forecast at 80 percent, a record low, compared with its historic near-monopoly position. Taiwan corn importers have been hesitating to purchase U.S. corn during volatile world corn market situation and instead have imported small shipments from Asian countries including China. Although the official ban on many agricultural imports from China is still standing, Taiwan temporarily lifted the ban on corn from China in response to local industries' petition for alternative import sources to cope with volatile corn market conditions.

Taiwan's rice imports are under TRQ regime, with a total of 126,000 tons quota amounts, of which 44,067 tons, 35 percent, is for private sector imports and the remaining 81,839 tons, 65 percent, for public sector imports. Taiwan started implementing a country specific quota (CSQ) on public sector rice imports since June 2007. Its annual rice

import forecast is supposed to be 126,000 mt if Taiwan is to meet its WTO commitment for rice CSQ imports. With delays in Taiwan's CSQ implementation, rice import forecast for 2009 is only 90,000 tons.

Executive Summary:

Wheat

Taiwan's wheat production is negligible. All demand is met by imports. Though high world wheat prices have reduced demand from previous levels, overall demand for wheat is expected to remain stable at 1 million metric tons. The U.S. supplies 88 percent of imports with Australia improving its share to 11 percent and the rest of the world supplies the remaining market share.

A potential threat for U.S. wheat imports comes from the possibility of an opening of the Taiwan market to flour and wheat from China. A number of local bakery sector and food producers have established flour mills in China and are now pushing to liberalize trade with the mainland. Because of geographic proximity with corresponding lower shipping costs, Chinese produced wheat and products would be very competitive in Taiwan. However, Taiwan authorities have repeatedly stated that they will not liberalize trade for 834 items currently banned for entry from China.

Post continues to work with Taiwan to establish appropriate MRLs for imports to avoid possible trade disruptions.

Corn

Corn production in Taiwan is extremely limited, although there has been some growth in production due to the high world price of corn, and some specific policy actions by the Taiwan authorities to promote production, specifically, a program to allow rice farmers to grow corn on set-aside rice paddies. However the vast majority of demand for corn in Taiwan is met by imports. A small percentage goes towards wet milling, a percentage which is shrinking due to changing consumer tastes and increasing price competitiveness of substitutes. Demand for imported corn is largely driven by feed use in the local livestock industries, specifically poultry and hog production.

During the period of high world corn prices, Taiwan authorities were forced to liberalize the markets for several substitutes to corn, including cassava, distillers dried grain (DDGS) and corn gluten meal (CGM). This liberalization, even with high corn prices, does not seem to have had a negative impact on the inclusion rate of corn in feed. However, this liberalization did provide an opening for to other corn exporting countries such as India and China to enter the Taiwan market.

Rice

Taiwan produces two rice crops a year, with variations in output according to weather. The annual production target for rice increased by 3 percent to 1.089 million metric tons, largely due to a policy increasing Taiwan's rice security stocks to 400,000 mt (on brown). Consumption of rice has been gradually falling against wheat, though this trend may invert in coming years due to a surge in world wheat prices. Taiwan is over 90 percent self-sufficient in rice production in contrast to a complete import dependency in wheat. When world wheat prices reached the high levels of recent years, Taiwan promoted rice consumption, encouraging the substitution of

rice for wheat wherever possible, including baking and feed uses.

Taiwan divides its Tariff Rate Quota (TRQ) into two portions, 35 percent is for private sector imports and 65 percent for public sector imports. Taiwan is currently behind on its public sector imports, having contracted only 19 percent of the 2009 quota amount as of April 2009. Taiwan remains has not fulfilled its quotas for 2008 and 2007 as well. Private sector quotas are filled by a bidding process, under which the rights to import at the reduced tariff rates are auctioned to the highest bidder. In total, the U.S. holds a 29 percent market share of rice imports, although it has less than 1 percent share in private sector imports, behind Thailand at 52 percent, Vietnam at 42 percent. Other suppliers include Egypt and Japan.

Commodities:

Wheat

Production:

Taiwan's wheat production is negligible. All demand is met by imports.

Consumption:

Taiwan's overall wheat demand is stable. Its wheat demand forecasts for MY08/09 and MY09/10 are 1.0 million metric tons, a decrease of 180,000 mt from previous year, due to high world priced wheat situation. With exception of about 20,000 mt for fermentation or brewing uses, the remaining wheat is for flour milling. The amount of wheat for feed use is insignificant in the Taiwan market.

During MY07/08 and MY08/09 consumption was lower because of high wheat prices. However, consumption is anticipated to pick up in coming months in conjunction with recent signs of recovery in financial markets and slowing economic decline. During the past two years some 60 bakery companies (out of the 8,000 total registered bakeries) closed due to a lack of capital to afford high priced raw materials, including flour and other bakery ingredients such as milk powder, sugar, and shortening. The media has reported that consumers are experiencing higher prices for smaller sizes of bakery products and smaller serving sizes of noodle soups.

Trade:

Wheat Imports – Stable

Since Taiwan does not produce wheat, all demand is met by imports. Wheat import forecast is one million metric tons for MY08/09 and MY09/10. The United States is expected to keep an 85+ percent share of the overall wheat market during the forecast period. In MY07/08, the U.S. had an 88 percent share (down by 2 percent from previous year), while Australia supplied 11 percent (captured a 2 percent share increase once again); and Canada and others combined one percent. Australian wheat has been recognized by Taiwan millers and noodle manufacturers and is competitive with U.S. hard white. Australian wheat imports to Taiwan have potential to increase as along as Australian has supplies. The Australian imports were either Australian Prime Hard or Australian Hard. This mix varies each year mostly depending on crop quality and price levels for the different classes of wheat and because of the wheat-food consumption patterns in Taiwan.

Taiwan imports mostly U.S. #1 wheat. According to the Taiwan Flour Millers' Association (TFMA), in CY2008 based on TFMA import data, 59 percent of U.S. imports were HRS or DNS (down by 2 percent from a year earlier), while 28 percent was HRW (up by 2 percent), 11 percent Soft or Western White Wheat (no changes) and two percent hard white (no changes).

The superior milling characteristics and price competitiveness of Hard White Wheat are expected to cut Taiwan imports of Australian hard wheat. Although a supply constraint has limited Taiwan imports of U.S. Hard White to only 5,000 mt in 2005, 10,000 mt in 2006, 22,000 mt in 2007 and 15,000 mt in 2008. With an exception of 2008 imports, there has been a clear upward trend for Hard White wheat which is expected to continue. Taiwan wheat importers have mentioned that a stable wheat supply with reliable gluten quality is critical for maintaining quality control of flour milling and Chinese noodle making.

Feed Wheat Imports – Insignificant

Taiwan imposes the same tariffs on milling wheat and feed wheat, which discourages feed wheat imports, compared to zero tariffs for feed corn, soybeans and other feed ingredients. Importers sometimes experiment with small imports of feed wheat to offset high corn prices but this practice is not common in Taiwan.

Taiwan didn't import feed wheat in MY07/08 and feed wheat imports are not anticipated for the forecast years.

Flour Imports

Flour import forecast remains low. Flour imports in MY07/08, however, increased 80 percent from the previous year to 34,000 mt, which accounted for approximately 4 percent of the total Taiwan flour demand, 924 thousand metric mt (estimated by total wheat import and flour import supply with flour conversion rate 75%.) The increase in MY07/08 flour imports was because of extremely high priced wheat during the MY07/08 and because Taiwan authorities temporally reduced flour and wheat import tariffs. In the past, Taiwan imported a very small amount of wheat flour that only accounted for about 2 percent of the total flour consumption.

Stocks:

Taiwan ending stocks usually remain stable along with stable imports and consumption. In general, physical stocks remain at about two months of consumption, or five months if contracted wheat is included. Currently stocks are lower, reflecting market fluctuation and volatile world wheat prices. Taiwan wheat importers utilize group purchasing of wheat to help reduce costs and risk.

Policy:

The lack of established MRLs for wheat and many other agricultural imports by Taiwan has been a longstanding concern for the United States. Post is working with Taiwan authorities to reduce the backlog of MRL applications in an effort to head off potential trade disruptions.

Production, Supply and Demand Data Statistics:

Wheat Taiwan	2007			2008		2009	
	2007/2008			2008/2009		2009/2010	
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008		Market Year Begin: Jul 2009	
	Annual Data Displayed	New Post	Data	Annual Data Displayed	New Post	Annual Data Displayed	Jan Data
Area Harvested	0	0	0	0	0	0	0
Beginning Stocks	254	289	254	403	400	318	350

Production	0	0	0	0	0	0	0
MY Imports	1,286	1,050	1,186	1,000	1,000	1,100	1,000
TY Imports	1,286	1,050	1,186	1,000	1,000	1,100	1,000
TY Imp. from U.S.	1,088	900	1,048	0	850	0	850
Total Supply	1,540	1,339	1,440	1,403	1,400	1,418	1,350
MY Exports	27	0	0	25	0	25	0
TY Exports	27	0	0	25	0	25	0
Feed Consumption	10	10	0	10	0	10	0
FSI Consumption	1,100	1,040	1,040	1,050	1,050	1,050	1,050
Total Consumption	1,110	1,050	1,040	1,060	1,050	1,060	1,050
Ending Stocks	403	289	400	318	350	333	300
Total Distribution	1,540	1,339	1,440	1,403	1,400	1,418	1,350
Yield	0.	0.	0.	0.	0.	0.	0.
TS=TD			0		0		0

Author Defined: Cross-Straits Trade

A potential threat to U.S. wheat exports would be the market opening for flour, wheat, or processed products imported from China. The Taiwan bakery sector and some food processors invested in China have petitioned the Taiwan authorities to open the import market to Chinese flour. Their voice was louder during the period of high world wheat prices. In addition, improving cross-strait relations has been the center piece of Taiwan's economic policy under the administration of President Ma Ying-jeou. However, Taiwan authorities have repeatedly stated that Taiwan will not liberalize trade of 834 agricultural items currently banned for entry from China even if a proposed Economic Cooperation Framework Agreement (ECFA) can be reached.

Taiwan Buying Practices and Investment Plans

The Taiwan flour milling industry continues to import through its long-standing collective group purchasing system under which companies pool their funds and jointly bring in large grain shipments to cut costs. High ocean freights and availability of empty backhaul containers provide some mills with opportunities to import wheat individually through containerized shipments. According to US Wheat Associates, approximately 450,000 mt of wheat was imported through containers in 2008, accounting for 43 percent of the total imports, compared to 7 percent in a year earlier. Approximately 40 percent of Canadian wheat and all Australian wheat were shipped to Taiwan via containers in 2008.

At present, Taiwan has 28 mills operation with annual milling capacity of 2.35 million metric tons based on 25-working-day a month. The largest and also the newest mill began operations in October 2007 with daily milling capacity 1,000 mt, the second largest is 720 tons and third has a capacity of 500 mt per day.

Commodities: Corn

Production:

Nearly all demand for feed corn is met by imports. Domestically produced corn is not competitive without a significant production subsidy or guaranteed purchase program. Taiwan, with its high input costs, is not efficient producer of most agricultural products.

In addition to the existing guaranteed purchase price of NT\$15/kg, beginning in 2008 under pressure from high world corn prices, COA took an initiative to revive farm land under the rice diversion program to improve Taiwan's food security and self-sufficiency by encouraging farmers to plant feed corn on portions of 220,000 hectares of set aside rice paddy fields. Under the 2008 initiative, rice farmers are allowed to grow feed corn on set aside paddy fields and are also eligible to receive a direct payment of NT\$45,000/HA for fallowing land. Corn is produced on contract with a contract price of NT\$8/kg. Total feed corn output in 2008 was 37,000 mt from 7,000 hectares of land, about the same level as the previous year. The 2009 feed corn production target is 79,000 mt from 16,000 hectares of land.

However, local feed corn production is anticipated to remain miniscule due to unfavorable climate conditions for corn crops, and other factors, such as the lack of availability of corn seed and drying and storage facilities. In addition, the local feed corn price (average price for the first fifteen days of April 2009) recently fell below the contracted corn price to NT\$7.6/kg, compared to last month, March, with an average price of NT\$8.13/kg. Lower market prices may depress future contract farming.

Consumption:

According to the wet milling industry, corn demand for wet milling in corn syrup manufacturing decreased to 100,000 mt from the previous level of 200,000 mt. Cane sugar has been less expensive and sugar free or less sweet beverages are trendy, leading to a reduction in demand of about 40,000 mt. Reportedly, cassava starch substituted for about 30 percent to 40 percent of corn in wet milling, beginning in the period of high priced corn in MY07/08, reducing the demand by another 60,000 mt. The remaining corn all goes to feed manufacturing. Approximately 90 percent of Taiwan's feed production goes to swine and poultry production, 45 percent each, with most of the rest going to cattle and fishery production.

Local press has reported that reductions in work hours and increased layoffs negatively impacts local markets in all sectors. When market conditions are unpredictable, as in the current global economic downturn, a conservative consumption attitude is customary in Chinese culture. As a result, in 2009 the Taiwan authorities reduced their domestic swine production target by 2.1 percent from the previous year, to 8.8 million head, and the poultry production target by 1.9 percent, to 363 million birds. Feed demand is estimated at 7.2 million metric tons for 2009, compared to estimated 7.28 million metric tons in 2008, 7.484 million metric tons in 2007, and 7.641 million metric tons in 2006. This reduced demand trend can be traced directly to recent price shocks in the swine production sector and uncertainty in the poultry sector, as illustrated below.

In the swine sector, there was an oversupply in 2006 and hog prices fell below NT\$5,000 per 100-kg head. In response, the industry started cutting hog production in 2007 by culling sows and young pigs. During the 4th quarter of 2007, world grain prices began to increase rapidly while domestic hog prices were below the break-even point. A serious hog production reduction scheme was implemented to support prices and help industry survive. At the same time, the local hog sector pressured COA to ban the usage of ractopamine in

meat animal production on Taiwan. The industry succeeded and Taiwan has banned ractopamine since October 2006, which later interrupted U.S. pork exports to Taiwan. In part due to these developments, local hog prices rose to NT\$7,557 per 100-kg head in June 2008 and since then stayed generally above NT\$6,000 per 100-kg head, a self-claimed break-even point for the industry. Despite this, domestic production remains below earlier levels, thereby reducing feed demand. Meanwhile, Taiwan is in the final phase of its Food and Mouth Disease (FMD) eradication program, but encountered its first outbreaks of the disease in nearly a decade when FMD was detected in three herds in two counties earlier this year. This led to a prohibition on imports of Taiwan pork in Singapore and it is now anticipated that Taiwan will be unable to declare itself FMD free as hoped over the next three years. This is a major setback for an industry with hopes for restarting their once-extensive export business to Japan once FMD is eradicated. Whether or not Taiwan can eradicate FMD longer-term remains to be seen, but hog production in 2010 is anticipated to continue at lower levels.

With respect to the poultry sector, Taiwan has proposed a ban on marketing freshly killed chicken in traditional wet markets since 2007 aiming to prevent an Avian Influenza (AI) outbreak. In late March, the Council of Agriculture (COA) announced its intention to move ahead with the ban but met further resistance from wet market poultry vendors while determining that the domestic processing industry needed more time to be ready to handle the additional market demand. As a result, further action has been postponed until October 2009 or later. If the ban takes effect, the raising of colored birds, which currently account for 40 percent of Taiwan's total poultry production, is likely to be negatively impacted, and imported poultry meat should find new opportunities in the market.

Trade:

Continuing diversification of the corn import market has dented the near monopoly position of U.S. supply in the Taiwan market of recent years. During the first seven months of the MY08/09, Taiwan has imported 2.5 million metric tons of corn, according to Council of Agriculture (COA) statistics. The United States accounted for just 69 percent of these shipments followed by Brazil (17 percent), India (7 percent), China (4 percent), and Thailand (2 percent), with the remaining one percentage from other countries combined. Taiwan imports corn from Asian countries because the geographic proximity affords short delivery time and freight advantage over the United States. Another advantage is that Asian suppliers are offering smaller cargoes with 6,000 ton, 10,000 ton, and 20,000 ton options that can be shipped by container if requested. This provides Taiwan importers with a flexible importation schedule. Therefore, Taiwan imported corn from Asian countries to meet Taiwan's interim corn import demand during the first seven months of MY08/09 when CBOT corn prices were in trending downward, creating too much risk for importers. However, Taiwan importers and feed millers report continued preference for U.S. corn based on its reliable delivery system and consistent quality.

U.S. corn import forecasts for MY08/09 and MY09/10 are 4.32 million metric tons, both, with estimate U.S. share 78 percent and 80 percent, respectively, based on Taiwan importers' preference over U.S. corn and signs of increase import pace of U.S. corn and increase import pace of U.S. corn in the second half of MY08/09.

Container shipments of U.S. corn are able to compete with Asian countries and South American corn which are usually in small bulk shipments. According to local industry, approximately 69 percent of corn was shipped to Taiwan in containers in 2008, compared to 42 percent in 2007 and 16 percent in 2005. In first three months of 2008, approximately 60 percent of corn was shipped to Taiwan via containers according to the Taiwan trade.

Containerized shipments provide Taiwan importers and U.S. exporters with expanded market opportunities.

Stocks:

Taiwan is a stable corn import market with stock levels around two and a half months of consumption, including landed stocks and stocks still on the water.

With diversified import sources from the region, Taiwan is able to remain its stocks at low level.

Policy:

Import Ban for Corn Imports From China Temporarily Lifted

Taiwan allowed, for the first time, the temporary entry of corn from China in October 2002. Until the current market opening from April 2008 through the end of 2009, the periods of opening were of relatively short duration and supply volumes relatively modest. With improving cross-strait relations and industry's desire for more imported corn sources after they experienced extreme price fluctuations in 2008, Taiwan authorities have been encouraged to continue providing access to corn from China for the foreseeable future. Below is list of time periods when entry of corn from China has been permitted:

October - December 2002, with imports of 71,000 mt.

November 2003 - January 2004, with imports of 67,502 mt.

March - May 2004, with imports of 22,946 mt.

November 20, 2006 – February 2007, with zero imports.

October 1, 2007 – March 31, 2008, with imports of 8,010 mt.

April 1 – December 31, 2008, with imports of 129,810 mt.

January 1 – December 31, 2009, with estimated imports of 95,000 mt.

Corn imports from China are estimated to decrease during CY2009 by 45,000 mt from the previous estimates because decreasing price competitiveness with U.S. and India.

Biotechnology and Labeling

The current Taiwan agricultural biotechnology regulations are only applied to soybeans, corn and products. No bioengineered soybeans or corn may be produced, processed, prepared, packed, and imported or exported unless they are registered. All bioengineered varieties of soybeans and corn must be registered and approved by DOH Food Safety Bureau (FSB). Taiwan has granted registration approvals for 15 corn biotech events. The registration are valid for five years until 2012 for food, feed, and processing (FFP) use, but not for environmental release or plantation. As of reporting date, Taiwan has granted registration approval for a total of 18 single biotech events, including the aforementioned 15 corn events and three soybean events, as well as 4 two-way stacked corn events and one three-way stacked corn event. Taiwan implemented a new approval system for stacked events starting in May 2008.

Production, Supply and Demand Data Statistics:

Corn Taiwan	2007		2008		2009	
	2007/2008		2008/2009		2009/2010	
	Market Year Begin: Oct 2007		Market Year Begin: Oct 2008		Market Year Begin: Oct 2009	
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan
		Data		Data		Data

Area Harvested	12	7	7	30	7	30	16
Beginning Stocks	672	745	672	659	670	709	647
Production	60	37	37	150	37	150	79
MY Imports	4,527	4,800	4,431	4,000	4,320	4,000	4,320
TY Imports	4,527	4,800	4,431	4,000	4,320	4,000	4,320
TY Imp. from U.S.	3,792	4,750	3,690	0	3,370	0	3,456
Total Supply	5,259	5,582	5,140	4,809	5,027	4,859	5,046
MY Exports	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0
Feed Consumption	4,400	4,655	4,370	3,900	4,270	4,000	4,270
FSI Consumption	200	225	100	200	110	200	120
Total Consumption	4,600	4,880	4,470	4,100	4,380	4,200	4,390
Ending Stocks	659	702	670	709	647	659	656
Total Distribution	5,259	5,582	5,140	4,809	5,027	4,859	5,046
Yield	5.	5.	5.2857	5.	5.2857	5.	4.9375
TS=TD			0		0		0

Author Defined: Corn Substitutes

Feed inclusion rate for corn in MY07/08 was estimated at 58.6 percent, based on COA preliminary annual feed production at 7.28 million metric tons. This was a 0.2 percent increase from a year earlier. With the exception of a 33,000 mt increase in DDGS imports, other feed grains and cassava starch had no price advantages to induce substitution for corn during MY07/08. During the period of high world grain prices, the Taiwan authorities implemented tariff reductions on corn meal and DDGS etc. from August 6, 2007 through August 5, 2009, and also enacted a 5 percent VAT exemption on corn, barley, wheat and soybeans from March 10, 2008 through March 9, 2010 to assist the local industries in coping with the high priced grains situation and to ease inflation pressure on local food prices.

Other Feed Grains and Cassava

The feed inclusion rate for other grains was estimated at 3.1 percent, which fell into the normal range from 3 percent to 4 percent in recent years. However, this was a 0.4 percent decrease from last year. In MY07/08, Taiwan imported 70,000 mt of barley (drop by 6,000 mt from a year earlier), 83,000 mt of sorghum (up by 19,000 mt), no feed wheat was imported. COA released also released 78,000 mt (down by of 105,000 mt) of old rice from the reserve stocks for feed use in 2008.

Cassava imports in MY07/08 totaled 343,000 mt, of which 13,000 mt was under the HS2303-1000 and 330,000 mt under the HS1108.14. The total cassava imports were decreased by 55,000 mt. As cassava starch has multiple uses, it is difficult to estimate how much of the total imports went to feed use. Only the imports under the HS2303-1000 were certainly for feed use. However, total cassava imports accounted for 4.7 percent of the total feed output in MY97/08, decreased by 0.6 percent from a year earlier.

Distillers Dried Grain (DDGS) and Corn Gluten Meal (CGM):

In MY07/08, Taiwan imported a total of 281,000 mt of DDGS, compared to 248,000 mt in MY06/07, 159,000 mt in MY05/06 and just 99,000 mt in MY04/05. Total DDGS imports accounted for 3.8 percent of the total feed output, increased by 0.3 percent.

However, DDGS imports are forecast to decrease for MY08/09 due to reduced price competitiveness with soybean meal and feed grains. Among the combined total DDGS imports, 53,000 mt were imported under HS2303.30 on tariff rates that varied from 3 percent to 1.5 percent, currently at zero, reflecting Taiwan's decision to cut tariffs for key commodities to address concerns about food and feed cost inflation (see TW9006). Additionally, 153,000 mt were imported under HS2306.70 and 75,000 mt under HS2302.10, both at a zero percent tariff rate. The Taiwan Feed Industry Association (TFIA) has petitioned for permanent a zero tariff on DDGS under HS2303.30, and it is anticipated that Taiwan authorities will eventually grant this request for DDGS imports to help boost the competitiveness of domestic livestock industries vs. pork and poultry meat imports.

Commodities:

Rice, Milled

Production:

Taiwan produces two rice crops a year. In each year, there are only minor variations in production areas and yields. The primary variable is weather, because typhoons are likely to damage the second crop each year. Rice output in 2007 and 2008 were 14 percent and 7 percent lower than a normal year like 2006. Rice output forecast is 1.089 million metric tons from 266,000 hectares of the land based on normal yield. This is a 3 percent increase compared to previous annual production targets.

Under the current WTO agreement, the rice TRQ quota amount is 144,720 tons on brown basis (126,000 tons milled equivalent). Out-of-quota imports do not occur because of the very high out-quota-tariff rates of NT\$45/kg for rice grain and NT\$49/kg for rice processed products. Therefore, Taiwan rice production target aims only to balance domestic rice supply and demand and to follow its policy of maintaining reserve stocks 3 percent in excess of demand.

The increased production target follows a policy of upward adjusting Taiwan's rice security stocks level to 400,000 tons (on brown basis) from the previous target stocks level of 300,000 tons, which was attributable to high world grains prices in 2008. As a major grain importer, Taiwan's concerns about food security increased after suffering disruptive food price inflation caused by high world grain prices and export bans for grains instituted by a few key exporting countries.

Consumption:

According to Taiwan's Council of Agriculture (COA) Food Balance Sheet, per capita consumption grain was 33.18 kg and 50.10 kg in 2001 for wheat and rice respectively compared to 2006's 36.78 kg of wheat and 48.04 of rice. Per capita consumption of rice has been gradually declining, whereas wheat consumption is picking up. However, the rice and wheat consumption trend may invert in coming years because wheat price CIF surged

74 percent in CY2008 from a year earlier, compared to a 17 percent increase in the domestic wholesale price for milled rice in the same time period.

Taiwan is over 90 percent self-sufficient in rice production with rather stable rice market. On the other hand, Taiwan is entirely import dependent on wheat and high world wheat prices have severely impacted Taiwan's flour and wheat food markets. Taiwan was promoting rice consumption to replace wheat/flour during high world wheat prices. The China Grain Product Research and Development Institute (CGPRDI) has been commissioned by COA to develop formulas for baking products and noodles with rice flour to substitute for portions of wheat flour.

Traditionally, when Taiwan promotes domestically grown agricultural products, rice has been one of the important items. Market promotions are likely to increase total demand for rice, particularly when there are high wheat prices. In general, local consumers recognize significant differences between varieties, origins and crop years. In addition to human consumption, there is some old rice for feed use, about 180,000 tons in 2007 and forecast 100,000 tons in 2008. The Taiwan livestock and feed industry strongly petitioned the Taiwan agricultural authority to release three-year-old or older rice for feed use whenever corn prices surged.

Forecast table rice consumption is 1,140 tons.

Trade:

Trade- Import Regime: TRQ Implementation

In June 2007, Taiwan started implementing a country specific quota (CSQ) regime for the public sector rice imports.

The Taiwan rice Tariff Rate Quota (TRQ) of 144,720 tons (on a brown basis) is divided into two portions, 35% for private sector imports and 65% for public sector imports.

The quota for private sector imports is divided into three auctions. The auctions to bid for 2009 quota are scheduled for November 2008, February 2009, and April 2009, respectively.

As for the 65% quota for public sector imports, it is divided by both country of origin and tender type: Simultaneous-Buy-Sell (SBS) and normal tender. SBS tendering is subject to a markup price (a flooring price); and normal tendering is subject to a pre-set ceiling price calculated on a basis of DDP (delivery, duty paid) terms and rice is delivered to designated COA warehouses in accordance to contract term. In recent years, COA has built air-conditioned warehouses in the northern, central and southern regions, respectively. The newly built air-conditioned warehouses can accommodate 34,000 tons of public imported rice, a little more than a half of total imports under CSQ normal tendering. COA plans to build more air-conditioned warehouses to store imported rice to maintain the rice quality.

Table: 2009 Private Rice Quota Allocation Schedule & Results

Product Name	Quota Amount	Quota Validity Duration	Date	Weighted-average Bid Price	Max. Bid Price	Min. Bid Price	# of Allocations
Rice	15,000 mt	Jan. 1/ Sept. 15	Nov. 28	NT\$8.595/kg	NT\$9.800/kg	NT\$8.203/kg	19
	20,652 mt	March 1/ Sept. 15	Feb. 26	NT\$6.022/kg	NT\$11.500/kg	NT\$5.428/kg	45
	15,000 mt	May 1/ Sept. 15	Apr. 29	NT\$6.551/kg	NT\$7.100/kg	NT\$6.333/kg	18
Total	50,652 mt (44,067 mt milled equivalent)						

Under the TRQ system, importers bid for quota rights that are sold to the bidder(s) with highest offered bid price. Using the so-called "System Three" quota bidding system, Taiwan has successfully allocated all 50,652 tons (brown basis) of its annual private sector import quota rights to local importers since Taiwan's entry to the WTO in 2002.

On April 29, Taiwan had already allocated all of its 2009 quotas to 82 importers, with the offered bid prices ranging from NT\$5.428/kg to NT\$11.500/kg (brown basis). As private rice quota tender, unlike public rice tender, attracts large enough participants in the bidding, Taiwan has no problems allocating import quota rights to interested rice importers through competitive tendering. The cost for quota rights reflects conditions in the local and international rice markets –with higher local relative prices making import rights more valuable and vice versa (Please refer to TW9030 for details).

Table: 2009 Public Rice Quota Tender Schedule & Results

Tender Type	Tender Schedule	Tender Quota
SBS - batch one	January/March	18,000 tons
SBS - batch two	In August	12,000 tons
Total SBS Quota: 30,000 tons		
Traditional Tender	Pending	64,068 tons
Total Traditional Tender Quota: 64,068 tons		
Total TRQs for Public Import: 94,068 mt or 81,839 mt milled equivalent (65 percent of the total TRQs)		
CSQs: The United States: 64,634 tons Australia: 18,634 tons Thailand: 8,300 tons Egypt: 2,500 tons		

Taiwan is behind on its public sector imports in 2009. As of reporting date, Taiwan has only contracted for 18,000 mt, or 19 percent, of the 2009 quota amount under

simultaneous-buy-sell (SBS) tender system. The remaining 2009 quota allocation is pending. In addition to delays in filling the 2009 quota, Taiwan only filled 62 percent of the 2008 quota and only 34 percent of the 2007 quota.

Taiwan introduced the simultaneous-buy- and-sell (SBS) tenders in 2006, but its initial attempts failed because bidders were not familiar with this new tender system, under which Taiwan awards the tender to bidders who offered bid prices above the pre-set floor price. The floor price is formulated based on the price difference between the foreign and domestic target rice prices. However, Taiwan is increasing the percentage of quota allocated to the SBS system, which is transitioning from the normal tender system.

Rice imported under the SBS tender is released to the market directly, instead of being deposited to the public stocks. The Taiwan authorities do not require budgets to cover import costs, or for warehousing and/or stocks management. The import quota under the SBS tendering is 30,000 mt for 2009, 25,000 mt for 2008, and 20,000 mt for 2007, with a 5,000 mt incremental increase each year since Taiwan started implementing the Country Specific Quota (CSQ) regime in June 2007 after completing its TRQ Head note notification to the WTO. Taiwan schedules its SBS tenders in two tranches; the first tranche is scheduled for the beginning months with delivery term by year end, and a second tranche in August for delivery by the end of April in the following year.

Taiwan has yet to announce its tender schedules for the remaining 2009 public sector import quota amounted to 76,068 tons, of which 12,000 tons under the SBS and 64,068 tons under the normal tender system.

Total Import Quantity in 2008

According to Taiwan Customs arrival data, Taiwan imported 93,524 tons of rice in 2008, on a milled basis. Of this total imports, private and public sector combined, the United States had a 29 percent share, Thailand had 39 percent share, Vietnam had 21 percent, and Egypt had 10 percent share.

Import forecasts are at 126,000 mt each year, if Taiwan is to meet its WTO commitment for rice CSQ imports. However, with delays in Taiwan's CSQ implementation, import forecast for 2009 are only 90,000 mt.

Rice Exports in 2008

Rice exports in 2008 amounted to 53,000 tons, of which 19,000 tons (milled basis) was dedicated to food aid while the remaining 34,000 tons was sold on a commercial basis (see Statistical Table 8 for details). In 2008, world rice prices spiked above domestic market

prices allowing for rare export opportunities for Taiwan rice producers. Average export price was \$1,220/mt FOB.

In order to control domestic rice prices and maintain domestic reserves, Taiwan set a minimum export price (MEP). Only premium rice graded CNS#1 that is priced above \$1,200/mt FOB is allowed for export.

Cross-Straits Trade

Taiwan's policy on import ban for rice from China still stands. However, Taiwan recently permitted a request for 25 tons of rice from China for processing and re-export. Kinmen Island is a special customs zone close to China.

Stocks:

Taiwan doesn't have a specific rice market price stabilization program. COA tries to "stabilize" most markets for all staple foods, including rice, sensitive fruits and/or vegetables, feed and fertilizer, etc. As for the domestic rice market, COA releases rice onto the market from the public stocks whenever public complaints put pressure on elected officials to do something, based on a perception that rice prices are too high. Under the current market condition of high prices, COA has scheduled 12 sessions for market releases, compared to a total of 13 sessions in 2008 and 19 sessions in 2007. The reserve stocks are now down to 220,000 tons (192,000 tons milled equivalent) from the normal reserve level of approximately 300,000 tons (260,000 tons milled equivalent), according to COA. The current low stocks level was partially attributable to delays in CSQ imports in 2009 and under-fills of 2007 (32,037 tons) and 2008 (59,284 tons) CSQ, and lower than normal rice outputs in previous two years.

Government public stocks are sourced from public sector imports under the CSQ and existing pre-set price purchase programs for domestically produced paddy.

Policy:

Stringent Import Inspection

In July 2007, Taiwan implemented its revised food import inspection regulation. However, this will not impact rice imports. Taiwan's implementation of stringent rice import inspection has continued since Taiwan opened its markets to rice imports in January 2002. Imported rice continues to be inspected on a lot-by-lot basis for pesticide residues, heavy metal and aflatoxin by the Bureau of Standards, Metrology and Inspection (BSMI). As a result, all imported rice, especially U.S. rice, bears high quality with one hundred percent compliance with Taiwan's import standards for rice. Corn and wheat shipment have been detained at the ports of entry due to violation against Taiwan's maximum chemical residues standard.

Rice Purchase Programs

To offset increasing farming input costs in 2008, COA increased support by NT\$2/Kg for three rice purchase programs: guaranteed purchase program, guidance purchase program and surplus purchase program. Sales under these programs are limited to certain quantities per hectare (refer to TW8024 Statistical Table for details).

According to COA data, total paddy sales to the government under these purchase programs totaled 205,000 mt, which accounted for 14 percent of Taiwan's total rice production of 1.457 million mt in 2008. Of these paddy sales to the government, 193,000 mt was purchased under the guarantee purchase program, 42,000 mt was purchased under the guidance program, and 400 mt was procured under the surplus purchase program.

Rice Reform Plan

COA will revise its production policy to adopt high food prices

Taiwan was at one time considering moving to a policy that directly supports farmer income and away from its current policy of protecting high domestic rice prices via a rice purchase mechanism and a prohibitive out of quota tariff.

Marketing:

To be competitive with imported rice, Taiwan rice administration, the Agriculture and Food Agency (AFA) under the Council of Agriculture (COA), has been working with local rice millers/farmers under a voluntary Taiwan Good Rice Program to improve quality in terms of specialty rice variety and freshness with township geographical indication. Market diversity is indicated by retail price differences between high and low end branded rice packages, April 2009 average retail price for small packaged polished Japonica rice was maximized at NT\$199.3/kg and minimized at NT\$39.75/kg. Taiwan is a dynamic and vibrant rice market.

AFA refers to the domestic wholesale price as an indicator when they do price comparisons between domestic and U.S. rice prices. All domestic rice data is sourced from AFA and it is available online at the link below.

http://eng.coa.gov.tw/content.php?catid=9601&hot_new=8821

Production, Supply and Demand Data Statistics:

Rice, Milled Taiwan	2007			2008			2009	
	2007/2008			2008/2009			2009/2010	
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	Jan
			Data			Data		Data
Area Harvested	265	265	260	268	268	252	268	266
Beginning Stocks	294	294	294	272	272	272	300	202
Milled Production	1,012	1,012	955	1,130	1,130	1,042	1,130	1,089
Rough Production	1,454	1,454	1,364	1,624	1,614	1,457	1,624	1,545
Milling Rate (.9999)	6,960	6,960	7,001	6,960	7,000	7,151	6,960	7,050
MY Imports	128	128	128	93	126	94	95	90
TY Imports	93	128	128	126	126	94	125	90
TY Imp. from U.S.	25	66	66	0	60	27	0	40
Total Supply	1,434	1,434	1,377	1,495	1,528	1,408	1,525	1,381
MY Exports	43	43	43	34	20	53	35	20
TY Exports	34	43	43	20	20	53	20	0

Total Consumption	1,119	1,119	1,062	1,161	1,208	1,153	1,190	1,161
Ending Stocks	272	272	272	300	300	202	300	200
Total Distribution	1,434	1,434	1,377	1,495	1,528	1,408	1,525	1,381
Yield (Rough)	5.	5.	5.2462	6.	6.	5.7817	6.	5.8083
TS=TD			0			0		0
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Statistical Tables

Table 1- Temporary Import Duty Reductions

Commodity/HS Code	Current Rate	Temporary Rate: Temporary 50% Reduction during 08/06/2007 – 08/05/2008	Temporary Rate: Temporary 50% cut or zero rate starting 08/06/2008 through 08/05/2009
Drum wheat for feeding/1001-1000-10-3	6.50%	3.25%	3.25%
Other drum wheat/1001-1000-90-6	6.50%	3.25%	3.25%
Soft wheat for feeding/1001-9000-10-6	6.50%	3.25%	3.25%
Other wheat and meslin/1001-9000-90-9	6.50%	3.25%	3.25%
Wheat flour/1101-0010-00-4	17.50%	8.75%	8.75%
Maiz flour/1102-2000-00-1	6.00%	3.00%	Zero
Groats of wheat/1103-1100-10-9	20.00%	10.00%	10.00%
Meal of wheat/1103-1100-20-7	20.00%	10.00%	10.00%
Groats and meal of meiz/1103-1300-00-9	10.00%	5.00%	Zero
Flour and meal of soya beans/1208-1000-00-6	3.00%	1.50%	1.50%
Brewing or distilling dregs and wastes/2303-3000-00-4	3.00%	1.50%	Zero

(Note: Corn, barley and sorghum tariff rates are at zero) Please refer to TW9006 for details

Table 2- Pork Imports vs. Domestic Production and Wholesale Market

(on a calendar year basis)

Year	Pork Imports in 1,000 metric tons (tmt)		Domestic Pork Production in 1,000 head slaughtered	Auction Price in NT\$/100kg-head
	Meat (HS0203)	Offal (HS0206)		
2005	26	28	9,500	5,352
2006	18	23	9,625	4,918
2007	13	23	9,447	5,193
2008	29	27	9,000	6,619
2009 (esti.)	25	25	8,800	6,200
<i>Source: Council of Agriculture (COA) and Taiwan Customs Statistics.</i> Hog target production for 2008 is adjusted down by 2 percent from 2007 due to high feed prices and hog farmers plan to increase domestic hog prices by cutting production and blocking pork imports by urging authorities to ban domestic use of ractopamine and impose low detection level for ractopamine residue.				

Table 3- Total Poultry Meat Imports vs. Domestic Production

Year	Poultry Meat Imports in thousand metric tons (tmt) (HS0207)	Domestic Poultry Production in 1,000,000 birds slaughtered	Farm Price in NT\$/kg
2005	88	378	36.81
2006	105	390	33.71
2007	63	377	36.55
2008 (preliminary)	82	370	43.52
2009 (forecast)	82	363	43.00
<i>Source: Council of Agriculture (COA) and Taiwan Customs Statistics.</i>			

Table 4- Feed Production for 2006-2009 in tmt

Feed Production	2006	2007	2008 (preliminary)	2009 (fore.)
Total Feed Produced	7,641	7,484	7,280	7,200
Hog Feed	3,484	3,363	3,200	3,140
Poultry Feed	3,360	3,364	3,320	3,300
Others	797	758	760	760
<i>Source: Council of Agriculture (COA).</i>				

Table 5- Rice Imports in 2008 (in Metric Tons)

Origin	HS100610 (paddy)	HS100620 (brown)	HS100630 (milled-total)	HS100630- 0010-4 (milled- glutinous)	HS100640 (broken-milled)	Total/Share (on a milled basis)
U.S.A.	0	23,400	7,096	979	0	27,454/29.35%
Australia	0	194	40	0	0	209/0.22%
Canada	0	0	1	1	0	1
Egypt	0	0	8,946	0	0	8,946/9.56%
Thailand	0	23	36,249	13,784	40	36,309/38.82%
Japan	<1	5	389	0	0	393/0.42%
India	0	0	45	0	0	45/0.04%
Indonesia	0	149	0	0	0	130/0.13%
Vietnam	0	1,001	18,859	15,671	297	20,026/21.41%
Italy	0	0	11	0	0	11/0.01%
Total	0	24,772	71,636	30,435	337	93,524

Source: Taiwan Customs Arrival Data)

Table 6- Taiwan Food Aid in 2007

Recipient Destination	Tonnage
Swaziland, Kingdom of	5,000
Haiti, Rep. of	8,800
Nicaragua	4,600
Marshall Island	200
Nauru, Rep. of	200
Total	19,000
<i>Source: Council of Agriculture (COA)</i>	